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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED

There Is No Shortage Of Freight Cars—Railroads Must Make Better Use Of What They Have

ORIGINAL

MARY

Railroads cannot satisfy the demand for freight cars because they do not use the existing car fleet efficiently. Enough cars are available, but they are not in the right place at the right time. Federal agencies can do little to substantially improve utilization.

Federally financed research does point the way to improve car utilization techniques, but only railroad managers can make the operating improvements which will largely eliminate the illusive freight car shortage. To supplement improved utilization, railroads could use greater pricing freedom to defer peak demand for cars. The recently approved rail deregulation act permits greater pricing freedom but it is too early to evaluate this legislation's effects.

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THERE IS NO SHORTAGE OF FREIGHT CARS--RAILROADS MUST MAKE BETTER USE OF WHAT THEY HAVE

D I G E S T

Shippers complain that they cannot get freight cars when they want them. The problem appears to be that freight cars are not in the right place at the right time rather than not having enough cars. The solution, therefore, is to improve freight car utilization.

Because the Interstate Commerce Commission's (ICC's) authority is limited and other Federal agencies lack authority over car availability, Federal efforts to improve freight car utilization have not been too successful. The rail industry will have to solve the problem. As an aid to the industry, the recently approved rail deregulation act, the Staggers Rail Act of 1980, authorizes that Federal funds available to assist railroads can be used for car management systems to improve car utilization. However, this will not necessarily make funds available to all railroads that might be interested in such a system. In any event, operating changes alone will not significantly reduce the shippers' inability to obtain freight cars on demand. An economic incentive could be used to smooth out the demand for cars. The Staggers Act permits greater pricing freedom but it is too early to evaluate this legislation's effects. (See pp. 33 to 49.)

The exact extent that freight cars are unavailable to shippers when they want them is not known because data is unreliable. There are no controls over the system for reporting unfilled orders and shippers frequently inflate car orders as a hedge to ensure they receive some cars during periods of short supply. However, industry data indicates the total number of unfilled freight car orders is small compared to the number of cars available for service. At their worst, unfilled orders never exceeded 4 percent of the serviceable fleet nationally during 1973-78. (See pp. 7 to 9.)

Freight cars are unavailable chiefly because they are not used efficiently. The car cycle, the period between loads, averages about 26 days, an increase of 7 days in the last 25 years. (See pp. 33 and 34.) The principal bottleneck in the cycle is the freight yards, where cars are received, classified, and coupled into trains. Freight cars spend 60 percent of their time in these yards. Because of these long delays, the average freight car moves less than 60 miles a day. (See pp. 34 to 36.)

ICC's efforts to increase the availability of cars have met with little success. The courts have ruled that ICC may not impose performance standards. Therefore, ICC has traditionally approached the freight car problem by restricting or directing the movement of particular cars. (See pp. 14 to 32.) Attempts to compel the railroads to increase or repair their fleet were abandoned when legislation altered ICC's authority. (See p. 19 and pp. 28 to 31.) Moreover, ICC does not have adequate data on which to base or evaluate the results of its actions to improve freight car utilization or supply. Thus, some of ICC's actions actually may have added to the inefficient use of freight cars by increasing empty car miles. (See pp. 15 to 26.) ICC has recently investigated various policies and modified or eliminated regulations contributing to these inefficiencies. (See pp. 20 to 23.)

Rather than adding more cars, the freight car problem could be reduced, in the long run, through technical and economic changes. The railroads could improve utilization and balance distribution by developing and using a computerized, nationwide system of car management.

Current studies funded by the Federal Railroad Administration show the potential for controlling each aspect of freight car movement from origin to destination. (See pp. 40 to 44.) The interdependent nature of the industry dictates cooperation. However, while the rail industry has sophisticated computer capability, each railroad has developed its own computer system with varying functions, support

systems, and quality of data. Furthermore, the costs to develop a uniform, compatible car management system may be more than some railroads will be willing to spend. There are uncommitted funds authorized under title V of the Railroad Revitalization and Regulatory Reform Act of 1976 which could be used for this purpose but these funds may not be available to all railroads wanting to participate in the system. (See p. 44.)

Improved utilization can greatly increase car availability. However, railroads probably will still be unable to satisfy the demand for cars at all times. Maintaining enough cars to serve any possible demand would be economically inefficient. An economic incentive could be used to defer or transfer the peak demand for freight cars to supplement improved utilization. Permitting railroads to adjust freight rates based on demand may accomplish this objective by forcing shippers to consider the economic impact of transportation charges and possibly deferring the demand to nonpeak periods. Until recently, the railroads' ability to adjust rates was severely restricted. The Staggers Rail Act of 1980 has removed some of these restrictions but it is too early to evaluate the impact of this greater pricing freedom. (See pp. 45 and 46.)

RECOMMENDATIONS TO THE CHAIRMAN, INTERSTATE COMMERCE COMMISSION

The Chairman should:

--Prescribe specific criteria for issuing emergency car service orders and establish a system to control and evaluate the effects of these orders.

--Study whether penalties induce shippers to release cars faster and whether prompt release results in more efficient use of these cars.

--Work with the rail industry and the Federal Railroad Administration to develop the technology and cooperation needed to implement a compatible management information system.

RECOMMENDATION TO THE SECRETARY OF TRANSPORTATION

GAO recommends that the Secretary direct the Administrator, Federal Railroad Administration, to continue to develop and demonstrate improved railroad car management and control methods that could be used in a compatible nationwide system and to use available assistance programs to encourage railroads to install and use such systems.

FURTHER ALTERNATIVES FOR THE CONGRESS

Recent congressional actions should alter railroad pricing and operations and as these changes take place, the problems discussed in this report may be alleviated. If they are not, the Congress has other options. It could provide more direct financial assistance to encourage railroads to make needed improvements and/or permit greater pricing freedom. These alternatives should be considered if the Congress concludes that railroads are not providing adequate service after the changes permitted by the Staggers Act are in place.

AGENCY COMMENTS AND GAO's EVALUATION

In general, ICC, the Federal Railroad Administration, and the Association of American Railroads agreed with the principal findings of this report. GAO made some technical modifications, additions, and deletions based on their comments to update the report to reflect recent developments.

The Department of Agriculture expressed various problems with much of the report. The Department's comments relate mainly to the problems of rail transportation in the grain industry. From their point of view, a shipper's inability to obtain freight cars in the quantities and at the time desired, no matter what the reason, constitutes a shortage in the eyes of that shipper. The Department maintains that (1) GAO minimizes the grain shipper's problem by failing to mention that in 1978

approximately 50 percent of the total reported "shortages" were for jumbo covered hopper cars used extensively by the grain industry, (2) GAO's recommendation concerning the rail industry's need to improve utilization of the existing fleet is a simplistic solution, (3) increased pricing flexibility will not reduce the demand for cars in the grain industry, and (4) perhaps the public good requires a degree of excess capacity in the railroad system.

GAO's report is directed to national rail transportation, not merely the grain industry. Overall, the shippers' inability to obtain cars when needed is small in relation to the total number of cars available. However, GAO does point out that the number of unfilled orders for grain-carrying cars is the highest of any car type. (See pp. 9 and 10.)

The Department discusses very briefly certain actions which could result in improved railroad operations. However, it characterizes improved utilization as a simplistic solution while admitting that adding more freight cars to a congested system would be counterproductive. GAO believes that improved utilization is the key to minimizing unfilled car orders in the long run. The railroads could improve utilization through a computerized, nationwide management information system, a corrective measure not suggested by the Department. In addition, the railroads may be able to use greater pricing freedom to smooth out the demand for cars.

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ABBREVIATIONS

AAR	Association of American Railroads
DOT	Department of Transportation
FCUP	Freight Car Utilization Research-Demonstration Program
FRA	Federal Railroad Administration
GAO	General Accounting Office
IC Act	Interstate Commerce Act
ICC	Interstate Commerce Commission
Train II	Telerail Automated Information Network, second generation system
USDA	Department of Agriculture
4R Act	Railroad Revitalization and Regulatory Reform Act of 1976